

**CALIFORNIA ECONOMIC STRATEGY PANEL
GOVERNANCE AND REGIONALISM POLICY ISSUE COMMITTEE**

SUMMARY

Background

The members of the California Economic Strategy Panel defined the following four policy issue areas that are critical for the growth and competitiveness of the state's economy:

- Workforce Development and Education Policy Committee (Senator Vasconcellos, Donald Fowler, Bill Simmons, and Amy Dean);
- Economic Data and Information Policy Committee (Donald Fowler and Bill Simmons);
- Infrastructure Policy Committee (Senator McPherson, Jerold Neuman, Ricky Laster, Lee Pearson and Vincent Chong); and,
- Governance and Regionalism Policy Committee (Sunne Wright McPeak and Araceli Ruano).

The members agreed to meet with technical advisors to review statewide and regional policy reports in each of the above areas and discuss the role, if any, the California Economic Strategy Panel can play. The result will be a two-year workplan beginning in January, 2003.

The following provides a summary of the discussion and recommendations for the workplan by the governance and Regionalism Policy Committee on September 30, 2002.

SUMMARY OF DISCUSSION

Common themes in policy reports reviewed by staff (refer to CESP Governance and Regionalism Matrix) and key discussion points included the following:

- The California Economic Strategy Panel has been the catalyst for regional concepts and demands of regional economies and industry clusters.
- Economic vitality is key to improving quality of life and solving the state budget crisis.
- There has been much progress by local organizations organizing regionally and addressing policy issues such as infrastructure demands on a regional basis.

- There are four economic development roles for the State: 1) strategic planning by State agencies and departments around economic regions and industry clusters; 2) leadership through a statewide, non-profit corporation such as Michigan and Florida; 3) statewide economic network with the state taking on the role of “connector;” and, 4) system that encourages investment, new mechanism that brings regions together and continuous mechanism to provide economic data and information.
- There are three elements for the success of economic development: 1) regional organizations; 2) industry clusters; and, 3) public/private investments.
- There is a need to align regional demands (i.e. rural v. urban or lack of telecommunications infrastructure such as the San Joaquin Valley v. over supply of telecommunications infrastructure such as the Bay Area) with regional supply through bold public/private investments and partnerships.
- The California Economic Strategy Panel could provide guiding principles for a new investment process of state funds and services that matches regional demands and is timely and flexible.
- Investment should be made that results in collaboration, compacts or incentives for people and organizations to come together at the regional level.
- Regions are organizing and solving problems; however, issues around transportation, water, labor market and education transcend regions.
- There is a need for economic leadership for a resilient economy that is continuously innovative.
- It’s about wages and industry clusters become means to raise wages.
- Roll out the report of the California Economic Strategy Panel to Legislative Committees, new members, business associations and local organizations.

RECOMMENDATIONS

The Governance and Regionalism Committee proposed the following recommendations:

- The California Economic Strategy Panel should promote shared economic goals for 1) economic resiliency; 2) rising per capita income that is widely shared; 3) good jobs with career ladders; and, 4) competitiveness and innovation.
- The California Economic Strategy Panel should document new economic realities that 1) different industry clusters/workers are emerging in each region; and, 2) regions are collaborating around distinct strategies to support their unique industry cluster opportunities.

- The California Economic Strategy Panel should articulate workforce, infrastructure, capital and technology resources and investments are required from the state to support these industry clusters.
- The California Economic Strategy Panel should create a *California Economic Leadership Network* that is based on 1) “bottom-up,” state-wide public/private partnership; 2) regionally focused; 3) industry cluster/worker driven; and, 4) aligning state infrastructure with regional industry cluster demands.

TECHNICAL ADVISORS:

Doug Henton
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CALIFORNIA ECONOMIC STRATEGY PANEL

GOVERNANCE & REGIONALISM POLICY ISSUES

Report (Author, Title, Affiliation, Date, Internet Link)	Overview	Key Findings	Key Recommendations	Status/Evaluation	Recommendations for Role of the Panel
<i>Growth Within Bounds: Report of the Commission on Local Governance for the 21st Century</i> , State of California, January, 2000. (No link available.)	The Commission on Local Governance for the 21 st Century was established by AB 1484 (Hertzberg) in 1997 and initiated in the fall of 1998. The legislation directed the Commission to review current statutes, and, where appropriate, recommend revisions to the laws that govern city, county, and special district boundary changes. Special attention was given to the Cortese-Knox Local Government Reorganization Act of 1985, the 57 local agency formation commissions (LAFCOs) governed by the Act, and citizen participation in local government. In so doing, the Commission also looked at general governance issues to be addressed by the Legislature and the Governor in dealing with how the State will grow. The Commission has ceased operations	<ul style="list-style-type: none"> • Our current institutions of government were designed when our population was much smaller and our society less complex. • The future will be shaped by continued phenomenal growth, and failure to recognize and respond to this challenge will risk the attractiveness of California as a place to live and work. • California does not have a plan for growth and there is no comprehensive strategy to determine how the burdens of growth will be shared. • Local government budgets are perennially under siege. • Land use decisions are often made for reasons more related to the finances of the local government rather than the land use needs of the community, and may ultimately erode the future quality of life. • The public is not engaged in and has little interest in the day-to-day functioning of government or preparing plans for future growth. People are confused by the array of government agencies that provide services, and many voters and taxpayers are alienated from the public policy process. • The legal process for restructuring local government to meet these challenges is outdated and often incomprehensible. A comprehensive solution is required. 	<p>Issue: Reform of Local Government Reorganization Law:</p> <ul style="list-style-type: none"> • LAFCO policies and procedures should be streamlined and clarified. • LAFCOs should be neutral, independent, and provide for balanced representation for counties, cities, and special districts. <p>Issue: Orderly Growth and Resource Protection:</p> <ul style="list-style-type: none"> • Strengthen LAFCO powers to prevent sprawl and ensure the orderly extension of government services. • Strengthen policies to protect agricultural and open space lands and other resources. <p>Issue: Local Fiscal Reform:</p> <ul style="list-style-type: none"> • Comprehensively revise the state-local fiscal relationship. <p>Issue: Guiding the Directions for Future Growth:</p> <ul style="list-style-type: none"> • The State should develop incentives to encourage compatibility and coordination of all local agencies, including school districts, within each region as a way to encourage an integrated approach to public service delivery and improve overall governance. 	The Commission ceased operations in July, 2000.	The Panel could follow-up on the recommendations of the Commission.

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	by statute July 2000, but there have been subsequent legislative changes as a result of the Commission's recommendations.				
<i>Speaker's Commission on State and Local Government Finance</i> , March 2000 (www.speaker.metroforum.org)	Assembly Speaker Antonio Villaraigosa created this commission, with a charge to recommend changes that would begin to solve the problem of rebalancing the fiscal power of local officials to provide local services and to change the fiscal incentives that will produce more rational growth and development policies. The Commission's work built upon previous fiscal reform issues, with all 36 Commissioners in agreement that fundamental reform is required.	<ul style="list-style-type: none"> It is time for the Legislature to change the rules that govern the way communities finance their local services because local governments live with a fundamentally flawed fiscal arrangement. Communities are dependent on the State, and lack a stable and predictable revenue stream by which to support local services. The current dysfunctional state/local fiscal system is the result of the unintended consequences of Proposition 13, and subsequent failure to address problems. The tax base to support local services is influenced by institutionally embedded fiscal incentives that distort local growth and development policies. This leads local governments to pursue retain and commercial developments over other land uses, due to sales tax revenues. 	<ul style="list-style-type: none"> The local finance system should facilitate balanced state, regional and local conservation and development policies as well as finance local and regional services. Local governments should derive their revenues from a diversity of sources, including property tax, sales tax, and general-purpose state subventions. The finance base of local and regional services should be a constitutionally protected, stable and reliable and be sufficient to assure basic services. Several fiscal reform ideas include: swapping a portion of the locally levied sales tax for an equivalent amount of the property tax, revising the allocation of property tax over time from tax shifts in the 1990s to support education, and other constitutional recommendations. Additional recommendations involved governmental accountability, including ways to strengthen the connection between government and the people such as developing performance measures for services. 	Many of the concepts and ideas of the Commission were furthered by the Speaker's Commission on Regionalism and the Commission on Building for the 21 st Century. In addition, the Speaker's Commission on State and Local Government Finance identified issues of continuing concern, such as equity issues created by the imbalance in fiscal systems, the structure of transportation funding, and regional growth and development policy, which have been the subject of several legislative proposals.	The Panel could support the need for fundamental fiscal reform to encourage better land use policies, increased development of housing and investments in services to improve local communities and regions.
<i>Land Use and the California Economy</i> , Steve Levy, Center for the Continuing Study of the California Economy, 1998, (www.newccsce.com)	This report address the tensions created by California's rapid growth on the goals of economic prosperity and quality of life; these tensions are often	<ul style="list-style-type: none"> Estimated growth for the next ten years: 3 million more jobs, 6 million more residents, and 2 million more households, based on the State's strong economic growth prospects of its leading industries. A strong economy attracts new residents 	<ul style="list-style-type: none"> Principle One: Regional perspectives are required. Regions are the critical geographic areas for organizing land use decisions in California. A first step is to take existing regional growth projections, along with data on land use, zoning, and environmental needs, and 	Several of the ideas and recommendations in the report contributed to the Commission on Building for the 21 st Century and other policy reports. Some regions are developing "footprints" to map and understand regional "carrying	The Panel could emphasize the importance of the regional land use perspective and reform strategies to result in better land use decisions and actual use of land – as key for regional quality of life and economic prosperity.

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	<p>focused on land use decisions. So far, Californians have not found agreement on how to plan for the future. The report was commissioned by Californians and the Land, a group of leaders from the business, government and environmental sectors, convened by several foundations and other organizations to foster public discussion and contribute to solutions. Three issues are addressed: how much growth should California expect and why, how are land use and quality of life issues related to the California economy, and what are the principles to be addressed if Californians are to combine economic growth and a high quality of life for current and future generations.</p>	<p>and increases pressures on land, the environment and quality of life. Most new residents want to live in existing urban areas. Bold actions are needed to preserve the quality of life and environment – this is the paradox of a strong economy.</p> <ul style="list-style-type: none"> • Residents have choices about where growth will occur and what the impacts will be. • We must begin by recognizing the importance of a high quality of life to business and to general economic prosperity. A high quality of life is a critical determinant in attracting entrepreneurs and workers in global industries, where firms and workers have choices about where to locate. This includes good schools and housing choices. • Land use decisions play a critical role in determining the quality of life and in how many high wage, high growth firms choose to locate in California’s regions. • Land use decisions affect the location of jobs and housing – today’s choices result in longer commutes and more congestion. • Land use decisions affect the revenues available to communities for public services – under today’s fiscal rules there is a disincentive for much new housing and job creation, and funding for quality of life services such as parks and schools is under severe pressure. • Land use choices affect the environment through impacts on air quality, water availability and quality, and waste disposal; the revitalization of urban 	<p>see whether and how the growth can be accommodated.</p> <ul style="list-style-type: none"> • Principle Two: Land must be used more efficiently. This includes increasing density for existing urban areas, through reusing abandoned and underutilized lands, and by making cities vital and attractive places in which to live and work. • Principle Three: Public investment is required to address existing and projected infrastructure needs. • Principle Four: Fiscal reform is essential. Current fiscal rules give the wrong land use planning incentives. • Principle Five: Equity considerations must be included in the public discussion about developing strategies to deal with future growth. 	<p>capacity.” There have been some legislative efforts to require the State to fulfill the mandate of the Office of Planning and Research to update the State Environmental Goals and Policy Report, which is an urban growth strategy for the State. Other legislative proposals and some new programs provide incentives to link housing, transportation, and land use decisions on a regional basis. The State Treasurer advocates use of equity considerations in ranking criteria for infrastructure investments.</p>	

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		areas; development pressures on agricultural lands; and, what lands are developed or preserved.			
<i>The New California Dream: Regional Solutions for 21st Century Challenges</i> , Speaker's Commission on Regionalism, February 2002, www.regionalism.org	This Commission was established by Speaker Robert Hertzberg to study and recommend new state policies that would support more effective solutions to some of the State's most serious and immediate long-term issues: economic competitiveness, underemployment, traffic congestion, unaffordable housing and loss of open space, among other things. California is a state of regions; issues once addressed successfully at the state or local levels must now be addressed at the regional level also. Recommendations are made in the areas of: the economy, social and economic equity, state-local fiscal reform, livable communities in 2020 for 46 million residents, schools and universities as centers of communities and anchors of regional development, enhancing	<ul style="list-style-type: none"> • The State faces many challenges at the start of the 21st century including high levels of population, housing and job growth; an increasingly diverse population; lagging infrastructure; a dysfunctional state local fiscal system; and increasing income disparities. • State and local governments lack sufficient constitutional or legislative authority, planning processes, funding schemes, or even public trust, to tackle problems successfully at the regional level. • A new mode of governance is required – regional stewardship – collaboration among local and state government and the private and civic sectors. 	<ul style="list-style-type: none"> • Reinstate the California Economic Strategy Panel, assist regions with better economic data and technical assistance, support the creation of a cabinet-level agency for workforce investment and encourage urban reinvestment, among others. • Address state/local fiscal reform by protecting local revenues, encouraging regional tax sharing, and incentivizing regional “home rule.” • Adopt processes for collaborative regional planning across local jurisdictions and across fields of interest. • School construction funding should support the idea of schools as centers of community, encourage joint use and other efficiencies, and support urban reinvestment. • Adopt policy and financial incentives for negotiated regional compacts. 	Among recent actions, the Governor appointed members to the Economic Strategy Panel and it is in process of strategic planning. The Legislature approved the Governor's plan for the Labor and Workforce Development Agency. A controversial bill for regional revenue sharing (AB 680 Steinberg) was withdrawn but has raised the profile of this issue.	The Panel could follow-up on the recommendations of the Commission.

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	environmental quality, performance-based regional collaboration as a better governance model, and reform of state government.				
<i>Survey of Economic Development Professionals</i> , California Economic Strategy Panel, 2000	In 1999, the California Economic Strategy Panel interviewed more than 40 regional economic development professionals to determine the impact of the 1996 California Economic Strategy in the field. The project concept originated at the Panel's La Jolla retreat in late 1998, where participants wanted to understand and document how the new concepts and approaches advocated by the Panel were being used throughout California's regions. The key concepts were of a new economy that is knowledge-based, networked, global and fast; emerging industry clusters that are region-based; significance of workforce development as an economic priority; and the need for collaborative models of governance. The survey also identified	<ul style="list-style-type: none"> • The concepts of the State's strategy are being vigorously embraced, and these activities reflect a shift in both thinking and implementation of new strategic approaches to address regional issues. A system change is underway in how people conceive of and perceive economic development. • New partnerships and collaborative efforts to address community problems involving local industry, business and community members are being created. • What started as a process to build an effective economic strategy and generate wealth and jobs has evolved into a more inclusive strategy for creating shared prosperity and enhanced quality of life. • Policy area needs for State economic development assistance for regions: good economic data, including emerging industry cluster needs, and addressing quality of life issues, meaning an integrated approach to economic development (linkages between economic, environmental, and social health and wealth of the community). Workforce education and training, infrastructure, and regulatory assistance were also high priorities. 	Recommended/possible roles for the Economic Strategy Panel in meeting the policy needs: new economy tracker/advocate/catalyst ; data analyst/information disseminator; facilitator/capacity builder; policy strategist – to help the State be more strategic in its overall economic strategy, help create policy support to increase regional investments, and build the capacity of regions. Many policy areas were identified.	The Panel's hiatus until 2002 delayed follow up on many of the policy areas and regional assistance needs. The survey results picked up the emerging importance of land use, infrastructure and broad quality of life issues for regional economic prosperity – as issues that economic development practitioners were increasingly grappling with and for which they desired assistance. The needs for good economic information is more compelling than ever and is being followed up in part by the Interagency Agreement between the California Workforce Investment Board and the Technology Trade and Commerce Agency. The need for sector-driven employment and training strategies has been recently validated in a demonstration project implemented by the California Center for Regional Leadership in concert with the Employment Development Department, but is not yet state policy. By and large the identified policy needs and potential roles for the Panel are still valid.	The Panel could review, assess and update the recommendations through a consultation process with selected regional economic development professionals.

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	recommendations for the work of the Panel’s next planning cycle, as well a state-level needs to support regional economic development initiatives.				
<p><i>The Economic Future of the San Joaquin Valley</i>, Prepared by Collaborative Economics for New Valley Connections, January 2001, www.greatvalleycenter.com</p>	<p>This report assessed the potential areas of economic activity that could be successfully undertaken in the San Joaquin Valley and identifies those with the greatest potential. The report provided an overview of the San Joaquin Valley economy and makes specific recommendations regarding areas of potential expansion. The report is being used by the Great Valley Center and the New Connections Program to invite additional discussion and promote implementation of the recommendations.</p>	<p>The report points out that the San Joaquin Valley faces enormous challenges with rapid population growth, high unemployment, and wide ethnic diversity. Per capita personal income has actually declined over the past decade while the rest of California has enjoyed historic economic prosperity. However, the region has the potential to move competitively into the new economy. The report focuses on opportunities that are achievable in the next 10 to 20 years and builds on the region's assets and traditions to take advantage of the new economy. "Economic success will require regional cooperation and committed leadership from every sector - and that includes agriculture," stated Carol Whiteside, Great Valley Center President. "We are seeing that success in this fast-paced environment depends on our ability to create a regional strategy and to use available technologies to our advantage."</p>	<p>The Economic Future of the San Joaquin Valley offers answers to two significant questions: What can be the economic future of the San Joaquin Valley, and how can the region achieve that future? Asserting that a prosperous and thriving regional economy is achievable, the report identifies six opportunity areas and outlines seven strategic recommendations:</p> <p>The six opportunity areas are:</p> <ul style="list-style-type: none"> • Flexible Food Manufacturing: transforming more agricultural products into manufactured food products to respond quickly to changing consumer demands. • Precision Irrigation Technology: increasing the competitiveness of the existing irrigation industry by focusing more on international trade and entrepreneurship development through collaborative relationships with universities, competitor companies, and water users and suppliers. • Agriculture Technology: leveraging current university-based research in precision agriculture and agricultural biotechnology to build a concentration of expertise that can be exported worldwide. • Agile Industrial Manufacturing: 	<p>The report has received significant attention through broad distribution throughout the San Joaquin Valley. It has also been used as a topic for discussion at a number of meetings held by the Great Valley Center and the New Connections program. The report is thought to have had an impact on elected leaders regarding the benefits of a regional approach to economic development. In addition groups have been formed to follow up on the specific recommendations.</p>	<p>The Panel could hold a regional forum regarding the economy of the San Joaquin Valley Region or address cross-regional issues with the Bay Area Region.</p>

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			<p>developing and connecting the current manufacturing base into an agile manufacturing cluster, serving diverse markets outside the region, based on the ability to produce customized products quickly in an environment of change and uncertainty.</p> <ul style="list-style-type: none">• Advanced Logistics: mass customizing of a product in a "smart warehouse" to adapt to a specific order in response to a specific demand.• Smart Commerce and Customer Services: moving beyond traditional call centers to high-value, comprehensive "smart" customer services, integrating e-mail, fax, Web interactions, and voice services. <p>The seven strategic recommendations to support the six opportunity areas are:</p> <ul style="list-style-type: none">• Regional Leadership: developing "networks of responsibility" in the region that will drive the testing, refining, promotion, and implementation of the vision.• Cluster Networks: creating intermediary institutions, personal relationships, and electronic networks that expedite collaborative partnerships among cluster companies, education institutions, and other organizations.• Innovative Workforce: developing a computer and information-technology literate workforce from K-12 through community colleges and universities and people capable of learning throughout their lifetimes.• Technology Development Community: developing a community of applied research professionals in companies and		

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			<p>universities that work closely with the cluster industries and involve the research of the University of California, Merced and the CSU campuses.</p> <ul style="list-style-type: none"> • Entrepreneurship: cultivating innovation economy entrepreneurs and next - generation business leadership. • Regional Identity: shifting mind-sets in and outside the region toward a positive vision of the future and the behavior change necessary to achieve it. • Livability/Environment: consciously creating a high-quality living environment attractive to knowledge workers, including vital downtowns, protected open space and landscapes, and preserving in some places the distinctive landmarks and physical character of the rural West. 		
<p><i>The Economic Future of the Sacramento Valley</i>, Prepared by Collaborative Economics for the New Connections Program of the Great Valley Center, September 2001, www.greatvalleycenter.com</p>	<p>This report provides an overview of the ten county Sacramento Valley economy and assesses its current trends and economic conditions. Based on this analysis the report offers specific recommendations regarding the most profitable industries that can be pursued by each of the four distinct areas of the Sacramento Valley, which are identified as the Sacramento Metropolitan Region, the North Valley, the Mid Valley and the</p>	<p>In order to succeed in the competitive global economy, each of these regions must focus on distinctiveness, diversity and quality. They must also have the leadership necessary to proceed in these directions. While some progress in this direction has been made the Sacramento Valley, with the exception of the greater Sacramento Area, is still dependent on low-cost land and labor, natural resources, and a rural quality of life to attract new industry. Although these are still important factors more attention must be paid to the quality of the labor force, innovative uses of natural resources and a broader range of attractions to meet quality of life demands.</p>	<p>The report finds that there are ten areas of specialization that would be appropriate for the Sacramento Valley and/or its individual counties:</p> <ul style="list-style-type: none"> • Specialized Agricultural Products • Electronics • Wood Products • Scientific and Health Products • Business and Professional Services • Health Care • Tourism • Logistics • Software • Recreational Equipment <p>The report identifies those industrial sectors that would be most appropriate for each of the four designated economic areas in the Sacramento Valley and recommends six specific areas where leadership will be needed for building appropriate foundations</p>	<p>The report was widely distributed and has been the subject of a number of meetings and discussions. Follow up by the Great Valley Center and the New Connections Program appears to have been more limited than for the San Joaquin Valley report.</p>	<p>The Panel could hold a regional forum regarding the economy of the Sacramento Valley Region or address cross-regional issues with the Bay Area Region.</p>

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	Mid Valley and the Agricultural Heartland.		for success. <ul style="list-style-type: none">• Education and Training• Entrepreneurship• Technological Innovation• Physical Infrastructure• Industry Networking and Recruitment• Quality of Life		